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3637 (10-81)

Executive Secretary

Date

S/S 8313479

DEPARTMENT OF STATE

Washington, D.C. 20520

May 4, 1983

May 4, 1983

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(with CONFIDENTIAL Attachment)

Senior Interagency Group No. 34

TO: NSC - Mr. Michael O. Wheeler
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. John Standford
CIA -
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Treasury - Mr. David Pickford
Interior - Mr. Barry Allbright
Transportation - Mrs. Katherine Anderson

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SUBJECT: IESG Meeting: Summary of Discussion

Attached are a Summary of Discussion of the IESG meeting held on April 22, 1983 and a list of those who attended.

Charles Hill
Executive Secretary

Attachments: a/s

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INTERNATIONAL ENERGY SECURITY GROUP MEETING
APRIL 22, 1983

SUMMARY OF DISCUSSION

Energy Alternatives in Europe

Ambassador Galbraith summarized his efforts to encourage the development of indigenous European alternatives to Soviet gas. The problem was to get the Dutch to agree today to buy a specified amount of future gas from Norway. The investment return on funds earned from near-term sales of about 10 billion cubic meters per annum in additional supplies of Dutch gas would cover future purchases from Norway. While the Dutch had not yet agreed to this approach, he thought they would if buyers could be found for the additional Dutch supplies. Several Western European countries might be convinced (e.g., FRG, Italy, France, UK). However, since the purchase of extra Dutch gas was a burden (i.e., high cost relative to Soviet supplies; current lack of demand), purchases would have to be spread around equitably. A great deal of thought would have to be given to determining priorities and tactics before getting started with a sales campaign. Ambassador Galbraith stressed the sensitivity of the exercise, cautioning against leaks.

Mr. Pugliaresi (State) asked how much more expensive Dutch gas would be for buyers than Soviet gas. Ambassador Galbraith replied that Soviet gas was now being discounted - Ruhrgas was paying $3.00 instead of $4.50, for example - but gas prices in Europe represented a blend of various costs. He did not think the overall price would go up much as a result of including some Dutch gas in the blend.

Recalling the sensitivity of this exercise and previous discussions of possible US financial assistance, Mr. Khedouri (OMB) asked whether any role was envisaged for the USG beyond badgering the parties into reaching an agreement. Ambassador Galbraith responded that he did not foresee any requirements for cash or guarantees from the USG. Mr.Triplett (USTR) supported Ambassador Galbraith's assertion that the Dutch would go along with a deal: [redacted] source had said that the Netherlands needed the cash and therefore would be prepared to sell Europe additional gas in the near term. STAT

OECD/IEA Energy Requirements Study

Ambassador Fairbanks said a strong concensus had emerged which recognized that there was a problem with respect to Soviet gas, that over-reliance on any single source was dangerous, that there was a need to develop Troll and other indigenous OECD resources and that gas security measures were essential. On the other hand, the 30% threshold had drawn considerable opposition, and agreement on a threshold number would be almost impossible to obtain. Alternative language on consultations had been bracketed for discussion at the April 27 IEA Governing Board and, possibly, the May 8 Ministerial. Ambassador Fairbanks believed that the US should not jeopardize the gains made thus far by insisting on inclusion of the original 30% threshold language in the policy conclusions.

Bill Martin (NSC) echoed this assessment, citing the April 18 International Herald Tribune article which stated that the Energy Requirements Study largely backed the U.S. approach. The problem with the 30% threshold was that everyone could agree to its importance in the aggregate, but it was hard to get individual countries to agree that it applied to them specifically. Dealing with the press was a potential problem, since everyone was looking for Western divisiveness on this issue. If we failed to get the 30% threshold, the Europeans might crow about it, especially if we crowed about our own successes to date. We should continue to play the exercise in low-key fashion, emphasizing its technical character. Under Secretary Wallis concurred, commenting that the President was interested in substance on East-West issues, difficult as that might be for the Europeans to believe. It remained to be seen whether East-West issues would be an important topic at the Summit.

US-Japan Energy Working Group

Under Secretary Wallis summarized the results of the Group's April 6-7 meeting, noting that the Japanese clearly were interested only in U.S. oil. The US questioned Japan's projections of reduced energy demand, which the Japanese then all but admitted were unrealistic. We would likely get a different set of statistics the next time we met.

Mr. Bailey (NSC) said it was important that we go to the next meeting with a concrete set of demands and expectations, such as long-term purchase contracts for coal. It was the technical experts' job to make clear to the Japanese where our major interests lay. He added that the U.S. delegation to the forthcoming Tokyo talks should also consider going to Seoul in view of the Korean's expressed interest in US oil.

Commenting on the Alaskan oil export issue, Mr. Bailey said it had become obvious that, to win Congressional approval, considerable lobbying would be required, especially in the House. It was urgent that we ask the SIG to make a decision soon. Complete deregulation was probably politically impossible. There were only two options: release a portion of existing production or release incremental throughput in addition to authorizing export of new oil. The export of 200,000 barrels per day (b/d) would eliminate some 30% (about 1800-2000) of maritime jobs and only 12% of the shipping tonnage. No legis-islation would actually be required. Rather, the President could issue a proclamation lifting the export ban on oil above a given level. If that level were 1.6 million b/d, 95% of the opposition would be defused. He recommended that the IESG agree on a recommendation for next week's SIG-IEP.

Alaskan Oil Exports

Under Secretary Wallis briefed the group on his April 18 meeting with Senator Murkowski, in which the Senator complained about the lack of an Administration position on Alaskan oil exports. Murkowski said this was giving free run to those in Congress opposed to exports. The Administration's EAA proposal had merely alerted opponents to its intentions. The matter was urgent; if the Administraton did not act within a few weeks, there would be no hope of success. The Senator said he could not and would not carry the ball alone.

Mr. Martin (NSC) described the working group's efforts to pull together a draft technical paper on the issue. The only part missing was DOD's assessment of the military reserve requirements for tankers.

Mr. Tarbell (DOD) explained that the Navy was opposed to lifting the oil export restrictions and that there was disagreement within DOD over what would happen to the current fleet of tankers, even if the restrictions remained. There was also an understandable reluctance within DOD to state precisely what its budgetary needs were, since when this became public, as it inevitably would, DOD's bargaining position vis-a-vis contractors supplying the tankers would be undercut. This had occurred before. Moreover, DOD is not confident that the additional budgetary resources necessary to acquire tankers would be forthcoming. Regarding the options available to the Administration, Mr. Tarbell said he felt that complete removal of all restrictions should be dropped from consideration. He reminded the Group that deregulation of a portion of current production would require development of administrative procedures to allocate export rights and quantities. Finally, it was important that we continue to consult with the Congress regarding alternatives before agreeing on a final Administration. Mr. Triplett (USTR) objected to dropping the complete deregulation case from the options presented to the SIG-IEP. Under Secretary Wallis agreed that continued discussion with the Congress was essential. He suggested that, since the IESG was not a body of political experts, those who were should be consulted regarding Congressional attitudes. Mr. Khedouri (OMB) stressed the need for DOD budget data in the options paper.

It was agreed that the executive summary and options, revised to reflect additional agency comments, would be submitted to the April 28 SIG-IEP. Under Secretary Wallis asked each agency present to provide a statement regarding its preferred option(s) in order of priority, if appropriate.

Commenting on an earlier statement made by Mr. Bailey, Admiral Shear (MARAD) stressed that his agency's responsibilities for the U.S. Merchant Marine did not imply opposition to any junking of tankers. Its principal concern was to maintain a fleet of medium- and large-sized tankers. Establishment of a high floor of, say, 1.5 mbd or 1.65 mbd above which exports would be permitted would "clear the air."

A list of attendees is attached.

Attendance at April 22 IESG Meeting

Chairman	- Allen Wallis (E)
State	- Ambassador Richard Fairbanks (S/SN) E. Allan Wendt (EB/IEP) Lou Pugiaresi (S/P) Kaarn Weaver (E) Frayda Levin (S/SN) Mike Michalak (EA/J) Fred Gerlach (EB/IEP/ECC) Jim Eighmie (EUR/RPE)
NSC	- Norman Bailey Bill Martin
DOD	- Dave Tarbell
Treasury	- Charles Schotta David Curry
Commerce	- Bernie Kritzer Pat Huber
USTR	- R. A. Reinstein Bill Triplett Ralph Johnson
Energy	- Jack Silvey Denise Dwyer Glen Sweetnam
CIA	- Maurice Ernst
Interior	- Dan Miller
DOT	- Martin Convisser H. E. Shear
OMB	- F. Khedouri Jim Nix Ken Glozer
Embassy Paris	- Ambassador Evan Galbraith Sharon Wiener

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